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Lansing, MI 48910

Tuesday, June 2, 2015

The Honorable Jeff Farrington  
Chair, Roads and Economic Development Committee  
Michigan House of Representatives  
State Capitol  
P.O. Box 30014  
Lansing, MI 48909-7514

Dear Representative Farrington:

I write on behalf of the Community Economic Development Association of Michigan (CEDAM), which also houses the Michigan Economic Impact Coalition (MEIC), to submit the following testimony in opposition to House Bill 4609, a bill to eliminate the Earned Income Tax Credit (EITC) from the Michigan Income Tax Act of 1967. Both CEDAM and MEIC members serve thousands of Michigan taxpayers each year. Our members know from this work that the elimination of a tax credit that goes to working men and women will not just negatively impact EITC recipients, but also hurt local communities.

Attached is a copy of my testimony, as well as a 2009 report by the Anderson Economic Group on the economic impact of the EITC. I ask that you and the committee review both CEDAM and MEIC's testimony and the AEG report as you consider House Bill 4609.

Sincerely

Ross H. Yednock  
Program Director, Michigan Economic Impact Coalition  
Community Economic Development Association of Michigan



**TESTIMONY FOR THE HOUSE COMMITTEE ON  
ROADS AND ECONOMIC DEVELOPMENT  
IN OPPOSITION TO HOUSE BILL 4609  
Ross H. Yednock, Program Director,  
Michigan Economic Impact Coalition at the  
Community Economic Development Association of Michigan**

Good morning Mr. Chairman and members of the committee. Thank you for the opportunity to testify in strong opposition to House Bill 4609, a bill to eliminate Michigan's Earned Income Tax Credit (EITC). My name is Ross H. Yednock, Program Director of the Michigan Economic Impact Coalition (MEIC) at the Community Economic Development Association of Michigan (CEDAM). On behalf of the more than 225 members of CEDAM and the MEIC and the thousands of people they serve, I respectfully ask that you vote NO on House Bill 4609 and do not eliminate the EITC, critical state tax relief for hundreds of thousands of Michigan low-wage workers.

CEDAM is a nonprofit membership organization that represents more than 225 organizations committed to revitalizing and rebuilding Michigan through community-based economic development. CEDAM members actively help the people living in and around their communities through programs and services that help increase access to affordable housing, improve local economies and financially empower workers and families in both urban and rural areas. To support the work of our members, CEDAM convenes several statewide collaborative initiatives including the Michigan Foreclosure Task Force, the Michigan Rural Council, Michigan Communities for Financial Empowerment and the Michigan Economic Impact Coalition.

The MEIC is a statewide network of individuals, nonprofits, governmental officials and local initiatives committed to supporting tax credit and asset building opportunities for Michigan families through improved access to free, high-quality, income tax preparation assistance. MEIC members work to improve outcomes for families, workers and children by linking free tax preparations services with opportunities to use tax time to save money, build assets and achieve financial security.

Members of both CEDAM and the MEIC work directly in communities and with clients who have been negatively impacted by the Great Recession. The men, women and children our members work with are striving to improve their economic situation despite living paycheck to paycheck and on the financial edge. For these families, minor emergencies like a sick child or a flat tire may cause them to miss work (and pay) and risk falling behind on their bills and other financial obligations. Work supports like the state EITC can help families weather

these financial storms and be the difference between staying afloat or falling into insolvency.

MEIC members help approximately 50,000 households representing more than 100,000 men, women and dependent children prepare and file their federal and state income tax returns every year. On average, 30% of MEIC member clients are eligible to receive the EITC, making it the third most common low-income state tax credit. However, unlike other low-income tax credits offered in Michigan, a taxpayer must have earned income from working one or more jobs, or through verifiable (and taxable) self-employment.

As you consider the impact House Bill 4609 will have on Michigan taxpayers, I would like offer the following thoughts into your deliberations. First, as just stated, a taxpayer must have wages from work to receive the EITC. It is not a hand-out, but rather an incentive for low-wage earners to work jobs that are often void of any other benefits like paid time off, sick leave, employer-sponsored retirement savings, etc.

The EITC's work requirement (and resulting benefit of working) is understood by taxpayers. As host of the MEIC, CEDAM annually surveys and interviews clients on the quality of service they receive at the free tax sites and how they use their refund. Between 2012 and 2015, I have personally interviewed more than 300 MEIC member clients, many of whom were EITC recipients. In my interviews with these very low-wage earners, they understand how the credit works and that the refund grows the more they earn. This encourages them to seek additional hours or even a second or third job to make sure that they can increase their earnings and the benefit of both the federal and state EITC, while becoming more self-sufficient.

Second, most EITC recipients I have interviewed rely on their refund as part of their annual household budget to cover necessary expenses. In fact, the most often cited uses of the credit by taxpayers is to pay for school supplies and clothes for their children, to cover higher utility bills during winter months, help cover winter property taxes for their home and save for emergencies. Despite being only a fraction of the federal credit, recipients of the Michigan EITC do use this state income tax relief to keep their heads above water and create a financial cushion for financial emergencies throughout the year. And, for nearly 7,000 Michigan households, the state EITC is what actually pushes their income above the federal poverty level.

Third, despite a common misperception, the vast majority of recipients do not receive a larger tax credit from the state than what they have "paid in." According Michigan Department of Treasury data, only about 25% of EITC recipients in Michigan have zero or a negative income tax liability when the state EITC is received during their tax filing. The remaining 75% of all EITC recipients pay more in state income tax than they receive from the Michigan EITC. And, of

those who do receive a Michigan EITC that is higher than their state income tax liability, all of them are living below the federal poverty line, many have children living at home and all pay a 6% state tax on the purchases of necessities like clothes, diapers, over-the-counter medicine, gasoline and all other non-grocery purchases. Simply put, few people are "getting more than they pay" in state taxes and, the very few who are, live well below the federal poverty line.

Finally, in addition to the positive impact it has on working families, the state EITC also provides an economic impact on communities all across Michigan. We know, based on a 2009 report by the Anderson Economic Group, that for every dollar Michigan receives in federal EITC, a \$1.67 is generated in new economic activity as money received from taxpayers is spent in the community and creates a ripple effect of economic activity within the community.

While the report does not provide a similar calculation for the Michigan EITC, it does state:

"It is likely that alternative uses of the MEITC funding would not be distributed so widely in the state or used as productively as putting money into the hands of families that then spend this money in their communities. The enactment of the MEITC is likely to increase awareness of the federal EITC and result in an increase in participation, which would bring more economic benefits to the state."

(Page 12, *Economic Benefits of the EITC*, Sallee & Anderson)

The report also concludes that one in five eligible people fail to claim the EITC and that increasing participation by 1% generates approximately \$3.3 million in new economic activity for the state. The report was commissioned by CEDAM and the Michigan Association of United Ways, and I have provided full copies to you as part of this testimony.

CEDAM and members of the MEIC strongly oppose the elimination of the Michigan EITC. It is a valuable support for Michigan's working families that encourages work, strengthens communities and can help families achieve greater financial security. The more than \$2 billion in tax relief that both the federal and state EITC provides for working families is critical to help upward economic mobility and lessens the financial burden on low-income families of the state's flat income and sales taxes and other fees that all Michigan families must pay. Simply put, the elimination or reduction of Michigan's EITC will result in a tax increase for taxpayers who work, but still struggle to make ends meet due to low wages and the lasting negative impacts of the Great Recession.

Every day in Michigan, members of both CEDAM and the MEIC see families struggling to make ends meet. We support policies that support families, encourage work and stimulate local economies while helping families achieve

greater economic security and financial self-sufficiency. Free income tax preparation sites run by MEIC members and the asset building programs offered by CEDAM members are filling the void left by cuts to state programs for thousands of working families in Michigan, a void that will only grow greater with the elimination of the Michigan EITC.

On behalf of both CEDAM and the MEIC's member organizations, and the hundreds of thousands of Michigan families that they serve, I ask that you vote NO on House Bill 4609 and instead, provide much needed tax relief to Michigan's hard working families by supporting the Michigan EITC.

Thank you, Mr. Chairman and members of the committee.

Ross H. Yednock  
Program Director, Michigan Economic Impact Coalition at the Community  
Economic Development Association of Michigan